

DIRECT TESTIMONY

OF

SHEENA KIGHT

FINANCE DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

NUON ACQUISITION SUB, INC.

UTILITIES, INC.

EACH OF THE 21 ILLINOIS OPERATING SUBSIDIARIES OF UTILITIES, INC.

DOCKET NO. 01-0480

OCTOBER 10, 2001

Admiral

OFFICIAL FILE

I.C.C. DOCKET NO. 01-0480

STAFF Exhibit No. 200

Witness _____

Date 10/31/01 Reporter TR

1 **Q. Please state your name and business address.**

2 A. My name is Sheena Kight. My business address is 527 East Capitol
3 Avenue, Springfield, Illinois 62701.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by the Illinois Commerce Commission ("Commission") as a
6 Financial Analyst in the Finance Department of the Financial Analysis
7 Division.

8 **Q. Please describe your qualifications and background.**

9 A. In May of 1998, I received a Bachelor of Business degree in Finance and
10 Marketing from Western Illinois University in Macomb, Illinois. I earned a
11 Master of Business Administration degree, with a concentration in Finance,
12 also at Western Illinois University in May 2001. I have been employed by
13 the Commission in my present position since January of 2001.

14 **Q. Please state the purpose of your testimony in this proceeding.**

15 A. The purpose of my testimony is to present my evaluation of Nuon
16 Acquisition Sub, Inc.'s ("NAS") proposed acquisition of Utilities, Inc. ("UI")
17 pursuant to Subsection 7-204(b)(4) of the Illinois Public Utilities Act (220
18 ILCS 5/1-101 *et seq.*, "Act"). NAS, UI and Each of the 21 Illinois Operating
19 Subsidiaries of Utilities, Inc. ("UI Operating Subsidiaries") filed a Joint
20 Petition for approval of NAS' proposed purchase of UI, and the subsequent

21 merger of NAS into UI, with UI being the surviving company. My evaluation
22 will focus on the financial implications of the proposed reorganization on UI
23 and the UI Operating Subsidiaries' (collectively the "Companies") ability to
24 access the capital markets on reasonable terms.

25 **Q. Why is it necessary to evaluate the financial implications of the**
26 **proposed reorganization?**

27 **A.** *In order to approve a proposed reorganization, Subsection 7-204(b)(4) of*
28 *the Act requires the Commission to find that "the proposed reorganization*
29 *will not significantly impair the utility's ability to raise necessary capital on*
30 *reasonable terms or to maintain a reasonable capital structure."*

31 **Q. Please describe the corporate relationship between NAS, Nuon, and**
32 **UI.**

33 **A.** NAS is a wholly owned subsidiary of Nuon. Upon completion of the
34 proposed reorganization, the public utility property and assets of NAS will be
35 merged with and into UI, which will become a wholly owned subsidiary of
36 Nuon.¹

37 **Q. Do you have any concerns regarding UI's financial strength as it**
38 **pertains to the UI Operating Subsidiaries' ability to raise capital on**
39 **reasonable terms?**

¹ Joint Petition, p. 2.

40 A. No. As the owner of the capital stock and the conduit through which the UI
41 Operating Subsidiaries access debt capital, UI must maintain a level of
42 financial strength sufficient to raise capital on reasonable terms. Based on
43 my evaluation, I consider UI's current financial position sufficient for this
44 purpose.

45 Q. How did you evaluate UI's financial position?

46 A. I examined the Joint Petition and all supporting documentation that was filed
47 by the Companies. Subsequently, I prepared a data request to obtain
48 additional information. In the responses to those questions, UI provided
49 current financial statements, from which I computed four ratios for 1999 and
50 2000: pre-tax interest coverage, funds from operations ("FFO") interest
51 coverage, total debt to total capital, and funds from operations to total debt
52 ratios. UI's resulting score for each ratio is within or above the benchmark
53 ranges that Standard & Poor's ("S&P") established for utilities with a credit
54 rating of BBB and a business position rating of three.^{2, 3, 4, 5} The tables
55 below indicate that UI's ratios are consistent with an S&P rating of at least
56 A/BBB. An obligor rated BBB has an adequate capacity to meet its financial

² Companies' response to Staff data requests SK 1.01-1.03.

³ Standard & Poor's, *Utilities and Perspectives*, June 18, 1999, p. 3.

⁴ An S&P rating of BBB or better is considered investment grade.

⁵ Most water utilities have an S&P business position rating of three. Standard and Poor's *Utilities and Perspectives*, June 26, 2000. pp. 11-12.

57 commitments.⁶ Accordingly, UI's financial condition would remain
58 sufficiently strong.

2000				
Ratio	S&P A-Rating Benchmark	S&P BBB-Rating Benchmark	Mean for A-Rated Water Utilities ⁷	Utilities, Inc.
Pre-tax Interest Coverage	2.8 - 3.4 x	1.8 - 2.8 x	2.81 x	3.34 x
FFO Interest Coverage	3.1 - 3.9 x	2.1 - 3.1 x	3.43 x	3.30 x
Total Debt to Total Capital	47.5 - 53%	53 - 61%	55.80%	53.75%
FFO to Total Debt	20 - 26%	14 - 20%	15.94%	20.65%

59

1999				
Ratio	S&P A-Rating Benchmark	S&P BBB-Rating Benchmark	Mean for A-Rated Water Utilities	Utilities, Inc.
Pre-tax Interest Coverage	2.8 - 3.4 x	1.8 - 2.8 x	2.81 x	3.47x
FFO Interest Coverage	3.1 - 3.9 x	2.1 - 3.1 x	3.43 x	3.86 x
Total Debt to Total Capital	47.5 - 53%	53 - 61%	55.80%	52.78%
FFO to Total Debt	20 - 26%	14 - 20%	15.94%	20.94%

60 **Q. Do you have any concerns regarding Nuon's financial strength as it**
61 **pertains to the UI's ability to raise capital on reasonable terms?**

62 **A. No.** As the parent company of UI, Nuon would raise debt or equity capital
63 for the Companies if UI's internal sources were insufficient to meet its

⁶ Standard & Poor's Global Utilities Rating Service, *Financial Statistics-12 Months Ended September 30, 1999*, p. 4.

⁷ Standard and Poor's, *Financial Medians Water Utilities*, July 7, 2000.

64 needs.⁸ Nuon has an S&P credit rating of AA-.⁹ An obligor rated AA has
65 very strong capacity to meet its financial commitments.¹⁰ Accordingly, Nuon
66 currently should have no difficulty accessing the capital markets on
67 reasonable terms.

68 **Q. How will the merger between NAS and UI affect UI's capital structure?**

69 A. Upon completion of its merger with NAS, the capital structure of UI would
70 remain unchanged. UI maintains a capital structure of approximately 50%
71 debt and 50% equity.¹¹ Therefore, the merger with NAS will not affect the
72 capital structure of UI. To assess the reasonableness of UI's capital
73 structure, I compared it to industry standards. Water utilities with an A S&P
74 corporate credit rating have a mean common equity ratio of 42.94%, which
75 UI's 50% common equity ratio exceeds.¹² Therefore, the capital structure of
76 UI subsequent to completion of the merger appears reasonable.

77 **Q. Based on your evaluation, does the proposed reorganization**
78 **significantly impair the Companies' ability to raise necessary capital**
79 **on reasonable terms or to maintain a reasonable capital structure?**

80 A. No, it does not.

⁸ Companies' response to Staff data request SK-2.1.

⁹ Standard and Poor's, *Summary: N.V. Nuon*, February 9, 2001.

¹⁰ Standard & Poor's Ratings Definitions, April 20, 2001, p. 2.

¹¹ Companies' response to Staff data request SK-1.4.

¹² Standard and Poor's, *Financial Medians Water Utilities*, July 7, 2000.

81 **Q. Does the proposed reorganization of NAS with and into UI meet the**
82 **requirements of Subsection 7-204(b)(4) of the Act?**

83 **A. According to my analysis, the proposed reorganization meets the**
84 **requirements of Subsection 7-204(b)(4) of the Act. Therefore, I see no**
85 **reason the Commission should reject the proposed reorganization from a**
86 **financial perspective.**

87 **Q. Does this conclude your direct testimony?**

88 **A. Yes, it does.**